

MARIN COUNTY ASSESSMENT PRACTICES SURVEY

DECEMBER 2002

CALIFORNIA STATE BOARD OF EQUALIZATION

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December 20, 2002

TO COUNTY ASSESSORS:

No. 2002/089

**MARIN COUNTY
ASSESSMENT PRACTICES SURVEY**

A copy of the Marin County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

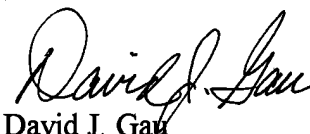
The Honorable Joan C. Thayer, Marin County Assessor-Recorder, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Marin County Board of Supervisors, Grand Jury, and Assessment Appeals Boards.

Fieldwork for this survey was performed by the BOE's County Property Tax Division from September through December 2001. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Ms. Thayer and her staff gave us their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

These survey reports give government officials in California charged with property tax administration the opportunity to exchange ideas for the mutual benefit of all participants and stakeholders. We encourage you to share with us your questions, comments, and suggestions for improvement.

Sincerely,



David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:jm
Enclosure

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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest comes from the fact that half or more of all property tax revenues are used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews (surveys) every county assessor's office. This report reflects the BOE's findings in its current survey of the Marin County Assessor's Office.

Readers of previous assessment practices survey reports will note several distinct changes in the format of the report. Among other things, the previous reports commonly contained multi-part recommendations and formal suggestions. Each recommended change is now listed as a separate recommendation. Items that would have been formal suggestions under the previous format are now either recommendations or are stated informally within the text of the report. Both of these changes may increase the number of recommendations in the survey reports.

The assessor is required to file with the board of supervisors a response that indicates the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, the Marin County Grand Jury, and the assessment appeals boards. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Joan Thayer, Marin County Assessor-Recorder,¹ elected to file her initial response prior to the publication of our survey; it is included in this report following the Appendices.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys*) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

¹ This report covers only the assessment functions of her office.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the performance of other duties enjoined upon the assessor, and the volume of assessing work as measured by property type. As directed by Government Code section 15644, this survey report includes recommendations for improvement to the practices and procedures found by the BOE's survey team.

In addition, Revenue and Taxation Code² section 75.60 requires the BOE to determine whether the county assessment roll meets a minimum assessment level. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.

Our survey of the Marin County Assessor's Office included reviews of the assessor's records, interviews with the assessor and her staff, and contact with other public agencies in Marin County for information relevant to the property tax assessment program.

This survey also included an assessment sample of the 2001-02 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative costs of processing supplemental assessments. The sampling program is described in detail in Appendix B.

An assessment practices survey is not an audit of the assessor's entire operation. We do not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment.

² All statutory references are to the Revenue and Taxation Code, unless otherwise indicated.

EXECUTIVE SUMMARY

As stated in the Introduction, this report emphasizes problem areas we found in the assessor's operations. However, it also identifies program elements that we found particularly effective and describes areas of improvement since our last assessment practices survey.

In our previous Assessment Practices Survey of Marin County, we made 10 recommendations addressing problems found in the assessor's policies and procedures. The assessor fully implemented six of the changes recommended, partially implemented two, and did not implement two. In this report, we repeat the recommendations that were not implemented or that were only partially implemented.

- We found no problems in the assessor's administration of appraiser certification, procedures, record maintenance, assessment appeals, disaster relief, roll change procedures, low-value property exemption, change in ownership, new construction discovered through building permits, declines in value, supplemental assessments, restricted California Land Conservation Act properties, taxable government-owned property, historical property, or water company property.
- Except for a problem in the administration of church exemptions, the assessor has an effective exemption program.
- Taxable possessory interests at the county fairgrounds may have escaped assessment, and we urge the assessor to carefully review these uses.
- The assessor fails to timely complete all mandatory audits, including those accounts where the property owner does not sign a waiver of the statute of limitations, and seldom audits accounts below the mandatory audit threshold.
- The processing of business property statements needs the following improvements: (1) sending statements to owners of noncommercial vessels costing \$100,000 or more; (2) reconciling current and prior year's filings by leasing companies; and (3) applying the statutory penalty for late filing or failing to file a business property statement.
- The assessor should upgrade her program for assessing manufactured homes by documenting the appraisal records to show the value guide estimate considered in reaching the value conclusion.
- Regarding valuation of business property, we noted several improper practices: (1) applying a minimum percent good to most business property when calculating its assessed value, (2) assessing apartment personal property at a uniform fixed value, (3) inadequately documenting aircraft valuations by failing to substantiate condition adjustments; and (4) failing to adequately investigate reporting on lessors' business property statements.

- Vessel assessments have improved in that the assessor has discontinued her prior practice of assessing only those vessels valued at \$10,000 or more and has begun making individual appraisals of higher-valued vessels rather than applying a fixed depreciation percentage each year. However, valuation practices for lower-value vessels are still unsatisfactory, and the practice of applying the full amount of exemption to a documented vessel upon receipt of a late-filed exemption claim form should be discontinued.
- The county assessment roll meets the requirements established by section 75.60. Our sample of the 2001-02 assessment roll indicated an average assessment ratio of 99.98 percent, and the sum of absolute differences was 0.81 percent. Accordingly, the BOE certifies that Marin County is eligible to continue receiving reimbursement of costs associated with processing supplemental assessments.

Here is a list of the formal recommendations contained in this report, arrayed in the order as they appear in the text.

RECOMMENDATION 1:	Review church property for non-qualifying uses and disallow the exemption to that extent.	19
RECOMMENDATION 2:	Review all private uses of the county fairgrounds for possible assessment as taxable possessory interests.....	25
RECOMMENDATION 3:	Bring the mandatory audit program into compliance with section 469.	29
RECOMMENDATION 4:	Discontinue the use of minimum valuation factors.....	30
RECOMMENDATION 5:	Require all apartment owners to file the <i>Apartment House Property Statement</i>	31
RECOMMENDATION 6:	Review lessors' current business property statements more carefully to ensure compliance with reporting requirements and to discover whether valuation issues may exist.	32
RECOMMENDATION 7:	Document manufactured home appraisals, including adjustments for in-park location.	34
RECOMMENDATION 8:	Document condition adjustments to aircraft valuations.....	35
RECOMMENDATION 9:	Appraise all vessels at market value.	36
RECOMMENDATION 10:	Apply the 10 percent penalty for late filing or failing to file a <i>Vessel Property Statement</i> as required by section 463.....	36
RECOMMENDATION 11:	Send <i>Vessel Property Statements</i> to owners of vessels costing \$100,000 or more as required by section 441.	37

RECOMMENDATION 12:	Implement the section 275.5 reduced documented vessel exemption for late-filed exemption affidavits.....	37
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RESULTS OF THE 1997 SURVEY

Change in Ownership

We recommended the assessor use comparable sales occurring no more than 90 days after a subject property's date of transfer when valuing property by the comparative sales approach. We found that the assessor has changed that policy. For properties experiencing a change of ownership, as well as for those that are the subject of a request for assessment reduction filed with the assessment appeals board, the assessor limits her evidence to comparable properties that sold no more than 90 days after the event date, i. e., the subject property's date of transfer or completion of new construction, or the lien date if a decline in value is involved. The assessor's procedures are consistent with section 402.5 and rule 324(d).³ Therefore, we do not repeat that recommendation.

Possessory Interests

We recommended that the assessor revise possessory interest assessment practices by using appropriate capitalization rates. Since there have been no sales of comparable possessory interests from which to extract rates, the assessor now uses a capitalization rate extracted from the sales of privately owned commercial properties.

We also found that the assessor had not enrolled possessory interest assessments for the private uses of property at the Marin Civic Center, including the annual county fair and other events held there throughout the year. During our current survey, we found those uses still have not been carefully reviewed for possible assessment. Therefore, we repeat that part of our recommendation.

Audit Program

Although the assessor reinstated the mandatory audit program during the 1998-99 fiscal year, the current mandatory audit program still does not meet the time limitations of section 469. Consequently, we repeat our recommendation that the audit program be brought current in this survey report.

Apartment Personal Property

We found that the assessor levied an arbitrary \$400 assessment per apartment unit to cover the value of all personal property that may have been included within each apartment complex. We recommended that the assessor revise her procedures for assessing personal property in apartment buildings. Since the assessor still applies the same arbitrary assessment to apartment personal property, we repeat that recommendation in this report.

³ For all references to rules, refer to Title 18, California Code of Regulations.

Vessels

Our recommendation on the assessment of vessels contained four areas of concern. Three of these have not been resolved.

In our prior survey we discovered the assessor had a policy of enrolling only those vessels with a value of \$10,000 or more, and we recommended the assessor enroll all boats regardless of value. This recommendation has been fully implemented. We also found that future vessel assessments were annually reduced by an assigned percentage and recommended that the assessor appraise all boats at market value. The assessor continues to apply the same fixed percentage depreciation to vessels assessed at \$30,000 or less on the prior year's tax roll. Therefore, we repeat our recommendation.

Our two other vessel recommendations have not been implemented and are consequently repeated in this report. One recommendation was that the assessor apply the 10 percent penalty for failure to file or for late filing only for the BOE-prescribed vessel property statement. Since this recommendation was made, the assessor has begun using only the BOE-prescribed form but has ceased applying the section 463 penalty altogether. The other recommendation advocated that the assessor should require certain vessel owners to file annual vessel property statements. Although the assessor has modified her procedures by requiring owners of commercial vessels to file the annual vessel property statement, she still does not require owners of noncommercial vessels to file the statement.

Computer Valuation

We recommended that the assessor value computers using the BOE's recommended factors. The assessor implemented this recommendation.

Escape Assessments

We recommended that the assessor notify the county auditor of escape assessments on which section 506 requires the auditor to add interest. This recommendation was a repeat of a recommendation we made in the 1993 assessment practices survey. Our review of the assessor's new computer system showed that this problem has been resolved.

Low-Value Properties

We found that during 1994-95 the assessor exempted personal property below \$15,000 and vessels below \$10,000 without authority, since the county board of supervisors had not adopted a low-value property exemption. We recommended that the assessor assess all low-value property unless exempt. The county has not yet adopted a low-value property exemption; however, the assessor now enrolls all property regardless of value.

Computer System

We recommended documentation of all in-house computer software programs. With the development and application of the Assessor-Recorder Real Property Online Work ("ARROW") computer program, the assessor implemented this recommendation.

We recommended that the assessor store backup programs and data at a safe off-site location. Backup data is now stored at safe locations both inside and outside Marin County. This recommendation has been implemented.

OVERVIEW OF MARIN COUNTY AND THE ASSESSOR'S OFFICE

Although one of the geographically smallest counties in California, Marin County's 521 square miles encompass a wide variety of topography, including mountains, coastal tidal flats, redwood and pine woodlands, and interior grasslands. The climate is generally pleasant and ranges from coastal fogs to warm inland summers. The county is linked to the City and County of San Francisco by the Golden Gate Bridge, and to Contra Costa County by the Richmond-San Rafael Bridge. Sonoma County borders it on the north and northeast, and the Pacific Ocean on the west.

Marin County contains 141,000 acres of federal, state, and county parkland in addition to numerous state, county, and city operated parks and recreational areas. Although not known for commercial or industrial development, Marin County has seen growth in media and software businesses, including movie production, computers, and communications, and continues to support ranching and dairy industries.

Budget and Workload

The following table displays information from the Marin County 2001-02 assessment roll.

PROPERTY TYPE	NUMBER OF ASSESSMENTS	ENROLLED VALUE
Residential	86,910	\$27,748,793,039
Commercial	3,381	3,941,324,325
Other	<u>6,076</u>	<u>737,572,545</u>
Total Real Property	96,367	\$32,427,689,909
Unsecured Roll	<u>16,864</u>	<u>1,357,979,698</u>
Total Assessment Roll	113,231	\$33,785,669,607

The County Board of Supervisors allocates an annual budget to the assessor in order to fund the annual preparation of the assessment roll. The following table presents the assessor's budgets over the last five years:

YEAR	APPROVED BUDGET
2000-01	\$4,750,226
1999-00	\$4,506,604
1998-99	\$4,725,435
1997-98	\$4,159,469
1996-97	\$4,225,880

The above amounts represent the total annual budgets for the operation of the assessor-recorder's office for the completion of the assessor-recorder's required duties. Because many of the office's accounts are commingled between assessment and recording functions, it is impossible to determine the actual costs allocated to operate only the assessment function. The majority of the annual budget is allocated for the creation and maintenance of the assessment roll.

For the 2000-01 fiscal year, the assessor had a budgeted staff of 63 employees (excluding recorder's staff) to produce an assessment roll that contained over 110,000 individual accounts within the combined secured and unsecured assessment rolls. The value of the combined rolls was nearly \$34 billion.

The staff budgeted for the real property and business property workload consists of 13 managers, 21 real property appraisers, and 5 auditor-appraisers. The remainder of the staff is composed of assessment-recorder technicians (ART) and cadastral technicians.

The real property workload for the 2000-01 fiscal year included 5,250 transfers and 3,000 reassessments resulting from new construction. The real property division staff also conducted 640 reviews for declines in value. In addition, the real property staff reviewed 200 assessment appeals, and valued nearly 500 parcels that are under land usage restrictions.

For the 2000-01 fiscal year, the business property division staff processed 17,000 business property assessments and 4,250 pleasure boats/documentated vessels. In addition, the business property division staff is responsible for conducting 200 mandatory audits.

Staffing

The assessor's office has a budget for a total of 72 full time employee positions for fiscal year 2000-01. The board of supervisors approved 63 positions for staff performing assessment duties (the remaining nine positions are assigned to the recorder's operation).

The following table details the allocation of these positions:

TITLE	POSITIONS AUTHORIZED	POSITIONS VACANT
Assessor Recorder	1	0
Appraiser I	3	0
Appraiser II	13	0
Appraiser III	4	0
Assessment Recording Technician I	8	0
Assessment Recording Technician II	8	2
Assessment Recording Supervisor	3	0
Assessment Systems Specialist	1	0
Assistant Assessor	1	0
Assistant Assessor-Valuations	1	0
Auditor-Appraiser II	3	1
Auditor-Appraiser I	1	0
Cadastral Drafting Technician	2	1
Chief of Administrative Service	1	0
Chief of Assessment-Systems & Standards	1	0
Chief of Assessor Mapping	1	0
Principal Appraiser	3	0
Principal Auditor-Appraiser	1	0
Senior Assessment Recording Technician	4	0
Senior Auditor-Appraiser	1	1
Senior Cad. Mapping Technician	1	0
Senior Secretary	1	0
TOTAL	63	5

During the previous assessor's administration, the board of supervisors reduced the assessor's budget, and the assessor lost auditor-appraiser positions. The current assessor has not regained these positions and has not completed all of the mandatory audits required by section 469. To complicate the staffing shortage, the assessor currently has two vacant auditor-appraiser positions.

2000-01 Grand Jury Report

The report prepared for the year 2000-01 by the Marin County Grand Jury recommended that the assessor revise the assessment of a major sand and gravel quarry located in the county. The Grand Jury found that the assessor failed to diligently pursue a possible change in control of the quarry corporation which owned real property and failed to timely enroll new construction at the quarry site that had been built without the benefit of a building permit.

In regard to the first issue, the assessor responded that her office had been informed of the change in control by the BOE's Legal Entity Ownership unit but had sought further clarification of whether that transaction constituted a change in ownership in light of the pending Chapter 11 Bankruptcy

and Reorganization Plan filing by the corporation. The Marin County Counsel opined that the transaction did not constitute a change in ownership. Although based on a different reason, this finding is consistent with the BOE's position. In the March 22, 2002 opinion of Senior Tax Counsel Robert Lambert to the Marin County Grand Civil Jury, the transfer of the voting shares to the debtor's three creditors in care of the bankruptcy trustee was excluded from change in ownership under section 64(a), since none of the new shareholders acquired more than 50 percent.

In regard to the second issue, the assessor responded that she had enrolled escape assessments for the improvements built without permit for 1997 through 2000. She also indicated that there was no reasonable way for her office to learn of the new construction, since her office received no official notice in the form of a copy of a building permit.

In fact, there are at least two other avenues of discovery that an assessor can utilize to discover new construction: mandatory audits and review of business property statements. The corporation owning the quarry filed annual business property statements reporting a portion of the new construction. In addition, the total personal and real property costs reported by the corporation for the years 1995 through 2000 indicate that the account met the value threshold for mandatory audit (at the time, section 469 prescribed \$300,000 or more in full value for four consecutive years). This account should have been audited at least once during the period when the escape of the new construction occurred, but it was not audited. Moreover, the business property division referred this information to the real property division for action, but apparently the real property division took no action – no escape assessments were enrolled. By the time the assessor took action, tax revenue was lost for three assessment years because the four-year statute of limitation precluded assessment for the years 1994, 1995, and 1996. These escapes would not have occurred but for the assessor's failure to perform mandatory audits in a timely manner.

These events emphasize the importance of coordination between the real property and business property divisions within the assessor's office and the need to complete audits required by section 469. Both of these issues are further addressed in this report. As noted later in this report, the coordination problem appears to be an isolated incident, and we have no recommendation on the subject of coordination. However, the incident emphasizes the importance of maintaining an active, timely audit program, which has not been accomplished in Marin County.

ADMINISTRATION

This portion of the survey report focuses on the administrative policies and procedures of the assessor's office that affect both the real property and personal property assessment programs. We examined the qualifications of the assessor's appraisal staff, the assessor's procedures and records, the preparation and presentation of assessment appeals, the assessment of property eligible for disaster relief, the handling of roll corrections and changes, and the low-value property exemption.

Appraiser Certification

Section 670 requires all persons who perform the duties of an appraiser for property tax purposes to hold a valid certificate issued by the BOE. The assessor's office has a total of 32 positions that require the employee to hold an appraiser's certificate.

Using both the assessor's and the BOE's records, we confirmed that each employee who renders valuation decisions currently holds either a temporary or permanent appraiser's certificate. The assessor's office does not employ contract appraisers.

Section 24002.5 of the Government Code requires any person who is elected or appointed to the office of assessor after January 1, 1997 to be certified as an appraiser by the BOE. The assessor was elected to the office of assessor prior to January 1, 1997 and therefore is not required to obtain or possess an appraiser certificate. To her credit, she has nonetheless passed the appraiser's certification examination and been issued a permanent appraiser's certificate.

Procedures Manual

The assessor has developed and adopted a very comprehensive policies and procedures manual for the real property division. The manual is focused on appraisal and record documentation to guide the appraiser through the process of completing a valuation of real property.

However, it has not been updated for many years. As a result, it does not reflect the many regulatory and statutory changes that affect property tax assessment. We found that the assessor is in the process of creating an electronic policies and procedures manual that will correct the outdated information. The electronic version will be available to all employees and can be easily updated to reflect current regulatory and statutory provisions. We encourage the assessor to complete the conversion and provide a manual that promotes uniform and correct appraisals.

In our prior survey report, we noted that the assessor did not have written policies and procedures for the business property section and recommended that she create them. We found that the assessor now has a manual covering several aspects of business property valuation and business property statement processing. However, it lacks a section on audits. This is an important area, especially because the assessor has hired new audit staff who need training. The assessor recognizes this need and plans to add audit procedures to the business property manual.

Record Maintenance

The assessor stores all appraisal files in open files that are accessible to all employees. Appraisal data and records for each parcel are placed in individual folders. Appraisers remove the appraisal data and records whenever they review or reappraise a particular parcel. A technician is assigned to refile all records.

The appraisal records we reviewed were well documented with information relating to the appraisal of each specific property. We found no problems with the present system of record maintenance.

Assessment Appeals

The assessment appeals function is required under article XIII, section 16, of the California Constitution. Sections 1601 through 1641.2 are the statutory references that regulate county assessment appeals boards in the appeals function. Government Code section 15606(c) directs the BOE to prescribe rules and regulations to govern local boards of equalization. Accordingly, the BOE has adopted rules 301 through 326 to regulate assessment appeal hearings.

The board of supervisors has created two assessment appeal boards. Each board consists of three members. The following data represents the number of filings by year of *Applications for Changed Assessment* (Form BOE-305-AH) received by the Assessment Appeals Clerk:

YEAR	REAL PROPERTY	BUSINESS PROPERTY	TOTAL
2000-01	129	60	189
1999-00	170	56	226
1998-99	N/A	N/A	269
1997-98	641	57	698

In the assessor's assessment appeal files that we reviewed, we found all supporting evidence to be well documented and organized in a professional manner. Our sampling included single-family residences, commercial properties, and industrial complexes.

The assessor's assessment appeals program appears to be in compliance with all applicable rules and statutes.

Disaster Relief

Section 170 authorizes a county board of supervisors to adopt an ordinance allowing tax relief to owners of property damaged or destroyed by a misfortune or a calamity. At the time of our survey, this section required that to qualify for tax relief, the damage or destruction must have caused the property to suffer a loss in market value of at least \$5,000. The owner must have filed within 60 days of the misfortune or calamity a written application with the assessor requesting reassessment of the damaged property. If no application was made, and the assessor was aware of a property damaged by misfortune or calamity within the previous six months, the assessor was required to provide the last known owner of the property with an application for reassessment. The ordinance may limit relief to property located in an area proclaimed by the Governor to be in a state of

disaster, or may include any misfortune or calamity. Marin County has enacted two ordinances specifically addressing this relief.

Effective January 1, 2002, section 170 has been significantly revised in several respects:

- An application may be filed within the time specified in the county ordinance, or within 12 months of the misfortune or calamity, whichever is later;
- The property owner now has 12 months to file a claim for reassessment;
- The damage threshold has been raised to \$10,000;
- The property owner now has six months to file an appeal of a damage-adjusted value;
- The assessor may now notify owners of properties damaged within the preceding 12 months that they may file a claim, and the owner has 60 days after mailing of the notice to file the application; and
- The ordinance may provide that where no application is made, the assessor may reduce taxable values of qualifying damaged or destroyed disaster-stricken property up to 12 months after the damage or destruction (Chapter 407, Statutes of 2001).

We conducted our review in light of statutory requirements as they existed prior to the 2001 legislative amendments and found that the assessor's program conformed to those requirements.

The assessor's Assessment Procedures Manual provides excellent guidance for the valuation of property damaged by misfortune or calamity. In addition, the appraisal files of properties suffering a misfortune or calamity are well documented and are completed in accordance with the statutory provisions. Furthermore, we found that the assessor's identification of calamity-damaged property is quite aggressive through monitoring of local newspapers, obtaining reports from local fire protection agencies, and reviewing building permits. Upon discovery, the assessor sends an *Application for Reassessment of Property Damaged by Misfortune or Calamity* to the assessee immediately. We commend the assessor and her staff on a competent and effective disaster relief program.

Roll Change Procedures

The assessor has a duty to complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the roll to the auditor, the assessor cannot change the assessment roll unless authorized by statute or by the board of supervisors. All assessment roll changes are based on specific statutes and must contain appropriate statutory references.

Assessment roll changes fall under two general categories: escape assessments and corrections. An escape assessment is an assessment of property that was not assessed on the July 1 roll, for any reason, or an assessment of property that was underassessed due to an error or omission of the assessee. A roll correction is any type of authorized change to an existing assessment except for underassessments caused by an error or omission of the assessee.

The assessor processed 3,413 roll corrections during 2000 and 5,494 roll corrections during 1999. The large number of roll corrections for 1999 is directly related to the conversion, installation, and integration of a new computer system.

We reviewed a number of roll corrections processed over the last two fiscal years. All procedures and citations utilized by the assessor were consistent with the Revenue and Taxation Code. Overall, the assessor has an effective system for the discovery, preparation, notification, and processing of assessment roll changes.

Low-Value Property Exemption

Section 155.20 authorizes a county board of supervisors to adopt an ordinance that would exempt all real property with a base year value and personal property with a full value so low that, if not exempt, the total taxes, special assessments, and applicable subventions would amount to less than the cost of assessing and collecting them.

In our prior survey we noted that the assessor did not assess boats valued at less than \$10,000 and recommended that the assessor either assess all property not statutorily exempt or request that the board of supervisors adopt a low-value property exemption resolution. The assessor responded that she would work with county counsel in drafting such a resolution.

After an in-depth study, the assessor recommended that the county not exempt low-value property. Her decision was based, in part, on the following:

- Most low-value properties, real or personal, require little effort to maintain.
- The revenue generated by low-value properties is significant.
- The exemption level is determined by base year value. The assessor does not have the capability of readily identifying base year values for low-value real properties.

Based on the assessor's study and recommendation, the board of supervisors did not adopt a low-value property exemption resolution. We also found, however, that since the 1999-00 roll, the assessor has assessed all boats valued at more than \$400. Therefore, we do not repeat the prior recommendation in this survey report.

Exemptions

The California Constitution, article XIII, section 4(b) authorizes the exemption of qualifying property used for religious, hospital, scientific, or charitable purposes from property taxation.

The assessor's exemption section consists of a Assessment Recorder Supervisor, a Senior Assessment Recorder Technician (ART), an ART II, and two ART I's. This section processes all exemption claims. Except for one area, we found that exemption claims are processed in a manner that follows all applicable statutory provisions and BOE guidelines.

Welfare Exemption

Property used exclusively for religious, hospital, scientific, or charitable purposes may qualify for an exemption from property taxes. In order to qualify, the property must be owned and operated by community chests, funds, foundations or corporations organized and operated for religious, hospital, scientific, charitable purposes (section 214). To qualify for the welfare exemption, the owner must also file an annual claim or affidavit for the exemption. The claim and approval process, including remedial provisions for late exemption claims, is described in Assessors' Handbook Section 267, *Welfare, Church, and Religious Exemptions* (AH 267).

To judge the effectiveness of the assessor's welfare exemption program, we reviewed a variety of claims on file at the assessor's office. We concentrated our review on claims that contained special findings. These findings included but were not restricted to the following:

- First-time filings (new claims);
- "Not been met" for any reason (i. e., a claim that was denied);
- "Late filed" claims; and
- Mid-year acquisitions eligible for cancellation or proration of taxes (section 271).

Specific property types that we reviewed included:

- Low-income housing and hospitals (partial exemptions);
- Reasonably necessary staff housing, including parsonages;
- Religious schools;
- Private schools; and
- Multi-specialty healthcare clinics.

We found that all statutory provisions were appropriately applied to these uses and different property types, and the claims were correctly processed.

The following table summarizes welfare exemptions processed for the past five years:

ASSESSMENT YEAR	NUMBER OF CLAIMS	ASSESSED VALUE
2001-02	622	\$592,863,383
2000-01	549	\$493,996,182
1999-00	408	\$483,887,226
1998-99	389	\$442,182,188
1997-98	391	\$397,600,910

The above data indicates that the number of welfare exemption claims increased over 50 percent between 1997 and 2001.

We conclude that the assessor maintains an effective welfare exemption program and we have no recommendations in this area.

Religious Exemption

The religious exemption is available to property owned by religious organizations and used exclusively for worship or for worship and a church-run religious school. This exemption is specified in sections 207 and 207.1. Any person claiming a religious exemption must submit to the assessor an affidavit giving specific information relating to property in order to qualify for the exemption. Section 257 requires generally that the affidavit show the following:

- The building, equipment, and land are used exclusively for religious purposes;
- The land claimed as exempt is required for the convenient use of the building;
- The property is owned by an entity organized and operating exclusively for religious purposes;
- The entity is nonprofit; and
- No part of the organization's net earnings inures to the benefit of any private individual.

The following table represents the number of religious exemptions and assessed values for the last five years:

ASSESSMENT YEAR	NUMBER OF EXEMPTIONS	ASSESSED VALUE
2001-02	103	\$54,019,050
2000-01	103	\$51,220,629
1999-00	101	\$49,175,095
1998-99	101	\$47,067,826
1997-98	105	\$46,831,827

Our review of the assessor's religious exemption program discovered no problems and we have no recommendations in this area.

Church Exemption

The church exemption is available for property used by churches exclusively for religious worship and parking. It is applicable to both real and personal property, whether owned or leased. This exemption is specified in sections 206 and 206.1.

The following table represents the number of church exemptions and assessed values for the last five years:

ASSESSMENT YEAR	NUMBER OF EXEMPTIONS	ASSESSED VALUE
2001-02	49	\$24,942,979
2000-01	45	\$23,358,290
1999-00	44	\$21,841,702
1998-99	43	\$19,621,067
1997-98	44	\$20,062,342

We found one area for improvement in the assessor's administration of the church exemption:

RECOMMENDATION 1: Review church property for non-qualifying uses and disallow the exemption to that extent.

Any property owner claiming a church exemption must annually submit to the assessor an affidavit reporting specific information relating to the property in order to qualify for the tax exemption. Section 256 requires that the affidavit show the following:

- The building and equipment are used solely for religious worship, and
- The land claimed as exempt is required for the convenient use of the building.

During our review of the assessor's church exemption program, we discovered two properties where an exemption was erroneously granted for the entire church property. In each case, part of the property was improved with a cellular telephone tower owned by a telecommunications corporation. The use of a portion of the property for other than religious purposes disqualifies that portion of the property from receiving an exemption from taxation. (See AH 267, Part II, pages 4 – 6.)

This finding suggests that the assessor should field check all property claiming the church exemption on a periodic basis to discover nonqualifying uses. We recommend that the assessor periodically review all properties that are receiving the church exemption for non-conforming uses and assess any portions of the properties not used exclusively for religious worship.

ASSESSMENT OF REAL PROPERTY

The assessor's real property assessment program includes reappraisal of properties that have changed ownership, valuation of assessable new construction, annual review of properties having market values below their factored base year values, and review of certain properties subject to special assessment provisions.

Change in Ownership

Article XIII A of the California Constitution requires that real property be assessed at the lower of its current market value or factored base year value. The assessed value on the 1975 lien date or the value that results from a change in ownership or new construction is referred to as the property's base year value. The base year value is adjusted annually to reflect inflation as measured by the California Consumer Price Index; however, the inflation factor cannot exceed 2 percent annually. This indexed value is known as the factored base year value.

Due to these value limitations, proper valuation at the time of change of ownership is critical. Most often, the assessor learns of a change of ownership when a deed is recorded. In Marin County, the assessor, who is also the county's recorder, reviews each recorded deed to discover a change in ownership that may trigger the establishment of a new base year value.

We reviewed a sample of appraisal records of properties that had changed ownership, as well as the procedures for processing transfers. In a typical year, the assessor reviews approximately 14,000 to 20,600 transfers, resulting in 5,000 reappraisals. For each recorded deed, the assessor either receives from the transferee a completed Form BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), or collects the \$20 additional recording fee authorized by section 480.3(b). Overall, the assessor's operations in these areas are effective and in compliance with acceptable practices.

Legal Entity Ownership Program

Section 64(c) provides that a change in control of a legal entity is a change in ownership of all real property owned by that legal entity, as of the date of the change in control. In that instance, the real property owned by the legal entity is subject to reappraisal. Section 64(d) provides that whenever shares or other ownership interests of original coowners representing cumulatively more than 50 percent of the total interests in the legal entity are transferred by original coowners in one or more transactions, a change in ownership of the real property owned by the legal entity shall have occurred.

The Legal Entity Ownership Program (LEOP) of the BOE's Policy, Planning, and Standards Division assists assessors in the discovery of legal entities that have experienced changes in control under section 64(c) and changes in ownership under section 64(d). The LEOP unit periodically transmits a list of such entities to each county, indicating the date of each change in control or change in ownership and the affected parcels within that county.

We reviewed several properties on the assessor's LEOP list and found no errors pertaining to the identification of changes in ownership or the enrollment of a new base year value for every parcel involved.

Direct Enrollment

"Direct enrollment" refers to any program developed in an assessor's office to streamline the processing of changes in ownership for less complicated types of real property, typically single-family residences. Regardless of the particular parameters selected in different assessors' offices, all direct enrollment programs involve a limited review of eligible properties by the appraisal staff, who are aided by computer-generated listings of confirmed sales of properties comparable to the property being directly enrolled.

The assessor instituted a direct enrollment program in October 1995. Only confirmed sales of single-family residences, duplexes, and vacant residential land, evidenced by a recorded deed and a *Preliminary Change of Ownership Report*, are eligible for the direct enrollment program. The assessor processed approximately 1,700 sales using the direct enrollment program for the 2000-01 fiscal year. This represents 34.4 percent of all properties enrolled. The total value added through the direct enrollment program was \$1,005,357,438.

The assessor has a well-designed and effective direct enrollment program.

New Construction

Section 71 requires the assessor to establish a new base year value for newly constructed real property upon the date of completion. Construction in progress must be appraised at its current market value as of each lien date until completed. Assessors discover most new construction activity from the building permits issued by various agencies. Other discovery methods include business property statements, aerial photographs, news reports, and field inspections.

There are 12 building permit-issuing agencies in Marin County. The assessor receives permits and plans from all issuing agencies on a monthly basis.

Upon receipt, an assessment recording technician (ART) enters all permit data electronically into the workload tracking system referred to as "WorkFlow." WorkFlow is programmed to perform "administrative culls," which consist of identifying and discarding permits that do not qualify as new construction. Parameters for culling are based on permits for repair and replacement with low values and typically include re-roofing, electrical, plumbing, mechanical, siding, repair, air conditioning, change of contractor, and temporary power poles.

If a property is purchased with significant deferred maintenance, the responsible appraiser flags the electronic property file and any building permits issued for that property are not culled until the property is reviewed by the appraiser. If two or more permits are issued on a property, the permits are not culled. The appraisers may cull permits at their discretion, if they determine those permits do not constitute new construction.

All hard copies of permits are filed according to year, issuing agency, and permit number for future referral if needed. Permits not culled are assigned to appraisers by area and use code and

appear in the appraiser's WorkFlow file. The WorkFlow file reflects the APN, use code, permit date, permit number, type, estimated cost, permit work description, comments, contact information, and the date a self-reporting new construction questionnaire was sent.

The following table summarizes new construction activity occurring for the previous three fiscal years:

	1999	2000	2001
Permits Received	9,883	11,322	11,359
Permits Culled	7,288	8,510	8,278
Permits Worked	2,595	2,812	3,081
Total Value Added	\$366,971,405	\$449,079,754	\$567,651,173

Self Reporting

The assessor utilizes a self-reporting program for all building permits not culled. The assessor sends questionnaires for residential as well as commercial and industrial property, which help to reduce the amount of time and cost associated with the appraisal of new construction. The WorkFlow program automatically generates a questionnaire requesting cost data and building information from each property owner. Questionnaires are tracked through the system and at least two attempts are made to collect data.

The assessor estimates that 57 percent of the self-reporting questionnaires are completed and returned. All returned questionnaires are scanned into the electronic property file. The assessor reviews the detailed cost and building information provided on the questionnaires and compares the information to building plans submitted by the various issuing agencies. In addition to sending the self-reporting questionnaire, the assessor may also contact property owners and contractors or field inspect the new construction if necessary. These contacts confirm the accuracy of the self reporting or provide information about new construction for properties whose owners who did not return the self-reporting questionnaires.

Valuation

Proper valuation of new construction means estimating the full value of the qualifying new construction as of the date of completion or, if the construction is in progress, as of the lien date. The assessor uses a computer-generated "Cost Data Summary" form for all new homes. This worksheet applies costs published in Assessors' Handbook Section 531, *Residential Building Costs* (AH-531). Appraisers use *Marshall Valuation Service* for commercial and industrial valuation.

If necessary, building characteristics, drawings, effective age, and building class are updated to reflect the new construction. After a value for the partial or completed new construction is determined, the property record is forwarded to the supervising appraiser for review. Once reviewed, the file is sent to ART for enrollment. Supplemental assessments are generated on all completed new construction.

As noted in the prior survey, the assessor's comprehensive program for assessing new construction complies with all statutory requirements. The permit-processing program results in thorough

monitoring of new construction and an effective valuation process. Appraisal files are well documented and easy to follow.

However, on occasion the assessor has not always timely assessed new construction that was discovered through a means other than building permits (please refer to the portions of this report addressing the Marin County Grand Jury Report, pages 11-12, and coordination between the real property and business property divisions, page 27). Since that situation appears to have been an isolated event, and the assessor has subsequently issued escape assessments resolving this issue, we make no recommendations in this area.

Declines in Value

In Marin County there are currently only 64 properties that have decline-in-value assessments. It is anticipated that most, if not all, of these properties will be returned to their factored base year values for the regular 2002-03 assessment roll.

Our review of properties experiencing a decline in value over the last six regular (section 601) assessment rolls showed that on several occasions the assessor determined market values for one lien date and then indexed these values by a fixed percentage for subsequent lien dates. The assessor bases this percentage increase on an analysis of comparable sales, which is a valid method of determining current market value for mass appraisal purposes. This analysis is performed annually for any properties still in a decline-in-value status.

We have no recommendation in the area of decline-in-value.

Supplemental Assessments

Section 75, et seq., requires the assessor to appraise property at its full cash value on the date property changes ownership or upon the completion of new construction and then issue a supplemental assessment. The increase or decrease in assessed value is reflected in a prorated value that covers the portion of the fiscal year remaining after the date of change in ownership or completion of new construction. For changes in ownership or completed new construction occurring between the lien date and May 31, two supplemental assessments are issued. The first supplemental assessment reflects the value difference for that portion of the current fiscal year remaining after the assessable event; the second covers the ensuing fiscal year in its entirety.

The supplemental assessment process begins when the appraisal staff completes a value change. Appraisers submit the new values to the Administrative Services Unit, where an Assessment Recorder Technician (ART) processes the appraisal records the same day they are submitted. Supplemental assessment notices and homeowners' exemption claim forms, when appropriate, are generated overnight and the assessor notifies the auditor of the pending supplemental assessment. Notices of supplemental assessment are reviewed and mailed the following day. The computer system automatically calculates the supplemental assessment and tracks the status of the notice. The tracking system includes the date the notice was processed and the date it was mailed. The system automatically enrolls the supplemental value 30 days after the notice is mailed.

Marin County does not have an ordinance authorizing the assessor to cancel small supplemental assessments pursuant to section 75.55. However, the auditor does not print supplemental tax bills that are \$5 or less, as authorized by section 75.41(d). In addition, also pursuant to section 75.41(d), upon the recommendation of the tax collector, all delinquent supplemental tax bills of \$20 or less are cancelled at the end of the year.

We reviewed a number of parcels subject to supplemental assessments and noted that the prorations, tax bill amounts, time periods, and ownership tracking were correct. The assessor has an effective supplemental assessment program.

California Land Conservation Act Property

Agricultural preserves are established by a city or county pursuant to the California Land Conservation Act (CLCA) of 1965. Property owners in an agricultural preserve may choose to enter into a contract restricting the use of their land. Lands under contract are valued for property tax purposes on the basis of agricultural income-producing ability, including compatible use income (e.g., hunting rights and communications facilities). They are assessed at the lowest of the restricted value, the current market value, or the factored base year value. Sections 422 through 430.5 prescribe the guidelines for assessing land subject to agricultural preserve contracts.

Marin County has a total of 767 agricultural parcels, consisting of 84,576 acres. The assessor classifies agricultural properties as CLCA, Farmland Security Zones (FSZ), Open Space Easements (OSE), or non-restricted agricultural properties. Assessment data for each of these classifications is shown below:

CLASSIFICATION TYPE	TOTAL PARCELS	TOTAL ACREAGE	TOTAL VALUE
CLCA	439	84,576	\$89,979,283
FSZ	44	12,373	\$1,168,657
OSE	24	4,741	\$4,348,878
Non-Restricted	<u>260</u>	<u>18,963</u>	<u>\$203,488,437</u>
TOTAL	767	120,653	\$298,985,255

Only three CLCA contracts are in nonrenewal status. The assessor correctly values these properties in accordance with section 426. The primary appraisal responsibility for both restricted and non-restricted agricultural properties rests with a principal appraiser who is well informed in the assessment procedures relating to these types of properties.

The assessor assigns different risk rate components to different commodities or agricultural operations on CLCA land in Marin County. The assessor assigns a 1 percent risk rate component to grazing lands and a 3 percent risk rate component to vineyards. Both of these risk rates are premised on a cash rent basis. The assessor believes that these choices reflect the guidance furnished in Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties*.

Our review of the agricultural property appraisal program indicates the assessor values these properties correctly. We have no recommendations in this area.

Taxable Government-Owned Property

Article XIII, section 3 of the California Constitution exempts from property taxation any property owned by local governments, except as provided in section 11(a). Section 11(a) provides that land, and the improvements thereon, located outside an agency's boundaries are taxable if the property was taxable at the time of acquisition. Improvements that are constructed to replace improvements that were taxable when acquired are also taxable. These lands and taxable improvements are commonly referred to as *Section 11* properties.

Marin County has 20 Section 11 properties with a total value of \$3,009,142. These properties are owned by a municipal water district, a sanitary district, and an incorporated city.

The California Supreme Court has held that Section 11 properties must be assessed at the lowest of the current market value, the 1967 taxable value of land multiplied by the factor described in section 11, or the factored base year value.

We found that the assessor enrolls the lowest of the current market value, factored base year value, or the 1967 assessed value factored by the section 11 factor. We found no problems with the assessor's valuation of taxable government-owned property.

Taxable Possessory Interests

A taxable possessory interest is a private property interest in publicly owned real property. For property tax purposes, the term "possessory interest" includes either the possession of or the right to possession of real property when a governmental agency holds the fee title to that property. The assessor assessed approximately 980 possessory interests with a total assessed value of \$167,632,063 on the 2001-02 assessment roll.

The assessor annually contacts 45 public agencies with known possessory interests to obtain current information on tenants and rents. The staff periodically contacts an additional 33 governmental agencies that own real property in Marin County to enroll any newly created possessory interests.

In our previous survey we recommended that the assessor use appropriate capitalization rates in the valuation of possessory interests. The assessor has reviewed the capitalization rates and compared them with rates developed from commercial sales. It appears that those rates are within a reasonable range, and therefore we do not repeat this recommendation.

RECOMMENDATION 2: Review all private uses of the county fairgrounds for possible assessment as taxable possessory interests.

In our previous survey, we found a number of private uses of the Marin Civic Center complex, and the venue for the annual county fair and other functions, that appeared to warrant assessment as possessory interests. Although the assessor responded that she would review those uses, she has not.

The County Department of Parks, Open Space and Cultural Services operates the annual county fair. The county rents space to groups and individuals, both public and private, during the fair each

year. These users are exhibitors or concessionaires who pay a fixed percentage of their gross sales or a flat fee as rent. Most users sign contracts for the right to use and occupy county facilities on a year-to-year basis. Although the short term of possession means that assessed values may be low, Marin County does not have an ordinance that exempts low-value properties. Accordingly, we recommend that the assessor review all private uses at the county fairgrounds and assess those that qualify as taxable possessory interests.

Historical Property

Government Code section 50280 provides that an owner or agent of an owner of a qualified historical property may enter into a contract with a local government restricting the use of that property in exchange for preferential assessment treatment under a statutory formula. Section 50280.1 provides that in order for a property to qualify for assessment as a historical property it must, among other requirements, be listed on the National Register of Historic Places or on a state, county, or city register as historically or architecturally significant.

Historical properties are assessed annually at the lowest of the factored base year value, the current market value, or the restricted value. The restricted value must be determined by the income capitalization method set forth in section 439.2. In this method, a fair or market rent less "ordinary and necessary" expenses is capitalized at a rate that is not derived from the market but is a summation of the four basic components described in section 439.2, subdivision (b), as follows:

- An interest component that is determined annually by the BOE;
- A risk component of 2 percent (4 percent if the property is owner-occupied);
- A component for property taxes; and
- A component for amortization of the improvements.

Marin County has two qualifying historical properties. We reviewed the assessor's valuation procedures for both historical properties. The assessor utilizes an in-house designed worksheet that compares only the restricted values and the factored base year values. However, both historical properties have sold in recent years at amounts far greater than either restricted value or factored base year value. The assessor has posted this information on the appraisal records. She is aware that historical properties must be assessed at the lowest of these three values and considers the recent selling prices when annually determining the taxable value of the two historical properties.

We have no recommendation in the area of historical property assessment.

Leasehold Improvements

Leasehold improvements are real property items that are owned and installed by a lessee on leased real property. Typically, leasehold improvements are found in retail stores or office buildings. Because the owner of the tenant improvements does not own the underlying real

property, discovery of leasehold improvements requires constant monitoring of commercial, industrial, and other income producing properties.

The most common sources for the discovery of leasehold improvements are business property statements and building permits. Section B of Form BOE-571-L, *Business Property Statement*, contains information regarding real estate-related assets owned by the occupants at the location of a business enterprise.

Coordination between the real property and business property divisions is important for the proper assessment of leasehold improvements. Transferring that information may be done efficiently using an interdepartmental memorandum. In Marin County, the business property division refers to the real property division a copy of each annual business property statement that includes any new changes in real property items costing \$25,000 or more. Amounts below \$25,000 continue to be assessed by the business property division. Each referred statement is entered into a logbook along with a memo detailing any pertinent comments. The logbook provides a useful tracking tool for referred statements.

Three years of assessments were lost when a referral memo could not be tracked (see the *2000-01 Grand Jury Report* topic on pages 11-12 in this report). We suggest the assessor require that valuation of leasehold improvements or other new construction reported on business property statements be included in the standard appraisal duties of the real property division.

Documentation such as referred business property statements and referral memoranda assists staff members in timely enrolling assessments and explaining value changes to a property owner. Documentation also builds the assessor's credibility should an assessment be appealed to the assessment appeals board.

We encourage the assessor to continue to stress the importance of proper documentation of leasehold improvements and other new construction.

Water Company Property

Water company property may be owned by municipal systems located on government-owned land, private water companies regulated by the California Public Utilities Commission (CPUC), private water companies not regulated by CPUC, or mutual water associations. Each type of system presents different appraisal problems.

Municipal Water Systems

The California Constitution exempts from taxation property owned by a local government that is located within its boundaries. This includes property owned by city water departments or water districts located within city limits or district boundaries. When a municipal water system owns property located outside of that agency's boundaries, however, the property located outside the boundaries is taxable if it was taxable at the time it was acquired by the city or district.

In Marin County, we found that parcels owned by municipal water systems located within city limits or district boundaries are correctly exempted from taxation. The land and improvements of the municipal water systems located outside of their boundaries are assessed correctly under article XIII, section 11 of the California Constitution as taxable government-owned land.

Private Water Companies

There are no unregulated private water companies in Marin County. Private water companies owned by individuals, partnerships, or corporations that are operated for profit are subject to regulation by the California Public Utilities Commission (CPUC). Real property owned by these water companies is subject to the valuation limits of article XIII A of the California Constitution.

The market value of the real property of a water company can be greatly influenced by CPUC-regulated rates, which limit the ability of investors to earn a return on their investment in water company plant and equipment. Since the market values of water company properties may be less than their factored base year values, the assessor should compare these values regularly to determine proper taxable values.

There is one private water company in Marin County subject to CPUC regulation. The assessor reviews the company's taxable value annually by comparing recent land sales and selecting the lower of the current market value or the factored base year value. In addition, the assessor values the business property based upon property statements filed by the company and CPUC annual reports received. We found no problem with the assessor's procedures.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

The assessor's business property division consists of one principal auditor-appraiser, one senior auditor-appraiser, three auditor-appraiser II's, one auditor-appraiser I, one senior assessment-recorder technician (ART), three ART II's, and one ART I. The senior auditor-appraiser position and one auditor-appraiser II position were vacant as of the time of this survey.

The business property division is responsible for the processing of more than 12,500 commercial, industrial, and agricultural business property statements, approximately 240 general aircraft, and approximately 4,250 boats and vessels. Approximately 11,000 of the business accounts are assessed on the unsecured assessment roll.

Audit Program

The business property audit program is an important function of the assessor's business property assessment program. Audits ensure that taxable property has been reported accurately by the taxpayer and assessed correctly by the assessor. Audits allow for the timely investigation and resolution of reporting and appraisal problems. The property tax audit provides a means of collecting data relevant to determination of taxability, situs, and value of business property. Based on the audit findings, the original assessment on the tax rolls may be revised to a more accurate value.

Mandatory Audits

RECOMMENDATION 3: Bring the mandatory audit program into compliance with section 469.

Since our last survey, the assessor has made audit completion a high priority and has utilized the California Counties Cooperative Audit Services Exchange (CCCASE). She has also hired additional auditors. Currently, four audit staff are certified to perform mandatory audits. Although she has taken these positive steps, the assessor still fails to perform the number of audits necessary for timely completion of mandatory audits. For the 2000-01 fiscal year, there were approximately 200 accounts that met the four-year mandatory audit requirement. To complete all of those mandatory audits timely, the assessor would have to complete approximately 50 mandatory audits annually; however, only 18 audits were completed that year. The assessor attributed this very low rate of production to personnel shortages and other management issues. Although the assessor requested waivers of the statute of limitations under section 532.1 for the 2000 lien date from 167 taxpayers, only 59 executed such waivers.

Pursuant to section 469 and rule 192, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$400,000 or more for four consecutive lien dates. Additionally, rule 371, subdivision (b)(4) includes completion of mandatory audits as one of the areas of an assessor's assessment operation in which "significant assessment problems" may be identified for purposes of section 75.60 and Government Code section 15643.

We recommend that the assessor ensure that all mandatory audits are made in a timely manner.

Business Property Statement Processing

Section 441 requires each person owning taxable personal property, except manufactured homes, costing in excess of \$100,000, to file a signed property statement annually with the assessor. Additionally, any person owning personal property, regardless of value, must, upon the request of the assessor, file a property statement.

Rule 172 requires that property statements prescribed by the BOE, and filed with the assessor or the BOE, must be signed by the assessee, a partner, a duly appointed fiduciary, or an authorized agent. Statements filed on behalf of a corporate assessee must be signed by an officer or by an employee or agent for whom the board of directors has submitted written authorization to sign on behalf of the corporation. When signed by an agent who is not a member of the bar, a certified public accountant, an enrolled agent, or a duly appointed fiduciary, the assessee must have authorized the appointed agent by filing a statement with the assessor's office. A property statement that is unsigned, or signed by an unauthorized agent, does not constitute a valid filing. Such a statement is incomplete and invalid, and should be returned to the assessee.

Facsimiles or copies of original signatures are not valid signatures. A copy of the original may be accepted, but the original document and signature should be provided timely to constitute a valid filing since facsimiles and copies merely represent the likeness of the original.

In Marin County, when the assessor receives a business property statement, it is date stamped and checked for completeness. Incomplete or unsigned statements are returned to the filer. Statements that are unacceptable are copied and the original statement is returned for completion.

After initial screening by an appraiser, most business property statements are assigned to the ARTs for processing of the reported costs. Statements reporting costs over \$400,000, new accounts, and those involving substantial changes or specialized or complex properties are assigned to auditor-appraisers for review and processing.

We did not find any deficiencies with the assessor's processing of business property statements.

Valuation of Business Personal Property

Taxable values of business equipment are calculated using historical costs and valuation factors. The valuation factors are a composite of price index and percent good factors. Accurate assessments of business equipment depend on the proper choice and application of a price index factor (used to adjust original cost for price level changes since the property was acquired) and a percent good factor (used to measure depreciation). The BOE annually publishes equipment price index and percent good factors in Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581).

At the time of our fieldwork, the assessor used the index and percent good factors from AH 581. We noted only one area where improvement should be made.

RECOMMENDATION 4: Discontinue the use of minimum valuation factors.

The assessor's computer system is programmed to use a minimum valuation factor of not less than 10 percent when calculating current market value estimates from historical costs of most types of business property. This percentage appears to be an arbitrary choice, since the assessor has no market data to support the use of a minimum percent good, and it does not reflect the percent good factors published in AH 581.

Minimum valuation factors should not be used without market evidence to support the practice. Absent such evidence, once an item still in service has exceeded its assigned service life, its remaining percent good should be based on the AH 581 tables, which extend well beyond the assigned life and exhibit a steadily declining percent good through the last age entered.

We recommend that the assessor discontinue the practice of applying a minimum percent good when calculating the valuation factors applied to the reported cost of business property.⁴

Computer Valuation

To promote uniformity in appraisal practices and assessed values and to comply with the requirements of section 401.5, the BOE issues valuation factors for computer equipment. The BOE provided valuation factors for use in valuing computer equipment for the 2000-01 fiscal year in Table 6 of AH 581.

We reviewed the assessor's computer valuation program and found that the proper factors are used and that no modifications are applied. We found no problems with the assessor's computer valuation program.

Apartment Personal Property

Personal property located within apartment complexes and used in the course of a business is taxable. Such personal property includes but is not limited to refrigerators, gym equipment, laundry equipment, maintenance equipment, office furniture, draperies, and common area furniture. Section 441 requires that if the aggregate cost of the taxable personal property is \$100,000 or more, the property owner must file an annual property statement. Upon the assessor's request, owners of other apartment complexes must also file a signed Form BOE-571-R, *Apartment House Property Statement*.

The assessor assessed personal property in 1,259 apartment complexes for the 2000-01 assessment roll. All of these apartments consisted of four or more units. There are also 485 smaller multi-residential buildings for which no personal property has been identified or assessed.

RECOMMENDATION 5: Require all apartment owners to file the *Apartment House Property Statement*.

In our prior survey we noted that the assessor applied an arbitrary valuation of \$400 per unit for apartment personal property. We recommended that the assessor revise the procedure for

⁴ Beginning with the 2003 lien date, assessors are prohibited from employing minimum percent good factors that are determined in an unsupported manner (AB 2714, Ch. 299, Stats. 2002, adding section 401.16 to the Revenue and Taxation Code).

assessing personal property in apartment buildings by requiring the owners to file property statements and basing the assessments on information provided by those statements.

The assessor continues to apply this arbitrary per-unit value for apartment personal property to all apartments having more than four units, whether furnished or unfurnished. No personal property is assessed to apartments having four units or less.

The consequences of the assessor's practice are that personal property is assessed at an arbitrary amount that does not reflect the value of the actual personal property included in each apartment building, and that personal property in smaller apartment buildings may be escaping assessment, since there is no low-value property exemption in Marin County.

We recommend that the assessor require all owners of apartment buildings to file BOE-prescribed Form BOE-571-R on a periodic basis. The reported property should be assessed at market value. We repeat our prior recommendation that the assessor revise her procedures for assessing personal property in apartment complexes.

Leased Equipment

The business property division is responsible for the discovery, valuation, and assessment of leased equipment. This type of property is one of the more difficult to assess correctly. Common problems include taxable situs, reporting errors by lessees and lessors, taxability, valuation (whether the value of the equipment should be the lessor's cost or the cost for the consumer to purchase), and double or escape assessments resulting from lessor and lessee reporting. These issues are discussed in detail in Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*.

RECOMMENDATION 6: Review lessors' current business property statements more carefully to ensure compliance with reporting requirements and to discover whether valuation issues may exist.

Form BOE-571-L, *Business Property Statement*, requires lessors of equipment to report the name and address of the lessee, the date and duration of the lease, the annual rent, and the location, quantity, description, year of acquisition, original cost, and selling price of the equipment. We reviewed nine lessors' property statements for the 2000 and 2001 lien dates; none of them reported all of the required items described above and there was no apparent effort by the assessor to obtain the missing information.

Six of the lessors did not report the date and duration of the leases. This information is critical for two reasons:

1. If the property is rented or leased for less than six months, rule 205 requires that it be assessed at the place where the lessor normally keeps the property. Otherwise, the situs is based on the lessee's use.
2. If the property is rented or leased for less than six months, rule 10 requires that the property shall be valued at the lessor's trade level, which would be the replacement cost to

the lessor less depreciation. If the property is rented or leased for six months or more, the property shall be valued at the consumer (retail) level.

In some cases, it appeared that the lessors are financing companies rather than true leasing companies. In such cases, the leases are intended to be long-term and the costs reported are most likely at the consumer level. However, without the information required by the business property statement, there is no assurance that the properties are being assessed at the level required by rule 10 or the location required by rule 205.

One lessor reported both cost and selling price for each item of equipment. The lessor did not report the duration of the leases, but it appears that they qualify as long-term leases and should be assessed at the consumer trade level. However, assessments for the 2000 and 2001 lien dates were based on the lessor's costs, which are about one-half the selling price (consumer trade level).

Another lessor reported most of the same equipment for both 2000 and 2001, but the reported costs for several of the items were lower for 2001 as compared to 2000. The assessor should contact the lessor to verify the correct costs.

In another case, the lessor provided the date and duration of the leases. Three of the leases that were reported for 2000 were not reported in 2001. One of the three was scheduled to expire during 2000, so it is possible that the lessee now owns the equipment. The other two leases had lease terms extending beyond the 2001 lien date; again, it is possible that the lessees have purchased the equipment. We found no indication that the assessor reviewed the lessees' property statements or contacted the lessor to determine what happened to the equipment. According to the assessor's staff, they cross-check lessor and lessee accounts for larger leasing companies only.

Section 405 allows the assessor to assess property to whomever owns or controls it on the lien date. It is important that the assessor determine the status of leased equipment in order to prevent taxable property from escaping assessment or being double assessed.

The assessor should improve the program for assessing leased equipment by requiring lessors to provide all the information specified in the property statement instructions, by reviewing the information provided to determine the proper situs and trade level, and by following up on accounts where inconsistencies exist.

Manufactured Homes

A manufactured home is subject to local property taxation if first sold new on or after July 1, 1980, or if the owner voluntarily requests a conversion from vehicle license fee to local property taxation. Sections 18007 and 18008 of the Health and Safety Code define "manufactured home." Sections 5800 through 5842 prescribe the valuation and assessment of manufactured homes.

The assessor valued 179 manufactured homes on the 2001-02 assessment roll with a total assessed value of \$9 million. The assessor's primary method of discovering manufactured homes is through the State Department of Housing and Community Development's (HCD) listing of transfers, voluntary conversions, and new registrations. This method is augmented by manufactured home dealers' reports of sales, reviewing building permits, inquiries sent to manufactured homes parks, and copies of tax clearances from the tax collector's office.

We found a problem in the assessor's manufactured home program in the area of appraisal documentation.

RECOMMENDATION 7: Document manufactured home appraisals, including adjustments for in-park location.

The assessor documents adjustments for site influence on the property appraisal records. Although the assessor stated that her staff considers various published value guides (N.A.D.A. *Manufactured Housing Appraisal Guide*, Kelley Blue Book *Manufactured Housing Used Value Guide*) when valuing manufactured homes, there was no documentation (completed value guide worksheets or cost calculations) in the appraisal records to indicate whether her appraisers considered value estimates listed in recognized manufactured home value guides. In fact, comments were limited to statements that selling price, less a lump-sum adjustment for site value, constituted fair market value of the manufactured home. And, there was no explanation of how the site value adjustment was determined.

Section 5803(b) requires the assessor to take into consideration manufactured home sales prices listed in recognized value guides. It also provides that the full cash value of a manufactured home on rented or leased land does not include any value attributable to that leased land. The assessor must not include any "add-on" for positive site influence in valuing manufactured homes on leased land (Assessors' Handbook Section 511, *Assessment of Manufactured Homes and Parks*, page 4). Letter to Assessors 93/35 recommends documentation in the appraisal records of the value guide relied upon and the value indicated by the guide.

We recommend the assessor document appraisal records for manufactured homes with the source of value, including an explanation of the adjustment for in-park location value.

Aircraft

Section 5363 provides that the market value of general aircraft shall be determined in accordance with the standards and value guides prescribed by the BOE.

Prior to the 1997 lien date, the BOE published aircraft valuation data each year in Assessors' Handbook Section 587, *Aircraft Valuation Data* (AH 587). The BOE no longer publishes this handbook section. On January 8, 1997, in Letter to Assessors 97/03, the BOE approved the *Aircraft Bluebook-Price Digest* as the primary guide for valuing general aircraft. The BOE also directed assessors to use *Vref Aircraft Value Reference* as an alternate guide for aircraft not listed in the *Aircraft Bluebook-Price Digest*.

As stated in LTA 97/03, the BOE further directed that the listed retail values shall be reduced by 10 percent to provide reasonable estimates of fair market values for aircraft in truly average condition on the lien date. In any instance, appropriate adjustments to the book value must be made in order to estimate a market value in the hands of the user.

The assessor enrolled 241 general aircraft on the 2001-02 assessment roll with a total assessed value of \$37.5 million. There was also one historical aircraft, which was exempted from taxation.

We found room for improvement in the assessor's documentation of condition allowances to aircraft values.

RECOMMENDATION 8: Document condition adjustments to aircraft valuations.

In Marin County, a taxpayer may request an adjustment to an aircraft's assessed value by a declaration on an aircraft statement. The assessor routinely grants adjustments for overall aircraft condition without receiving documentation from the aircraft owner or conducting a field inspection of the aircraft. In addition, aircraft assessment records contain no evidence to support adjustments made to aircraft valuations, e.g., a picture of damaged aircraft or a field inspection report.

It is very important to document any variations from the recommended aircraft value guide. Letter to Assessors 97/03 is specific on this point: "However, variances from the values indicated by use of the recommended guide must be based on reasonable evidence and should be well documented."

When aircraft values are not documented, the integrity of the mass appraisal approach is undermined and uniform treatment of taxpayers is jeopardized. We recommend the assessor document the justification for condition adjustment to aircraft valuations.

Vessels

For the 2001-02 assessment roll, the assessor enrolled 4,277 vessels with a total assessed value of \$136,725,131. This is more than double the 2,116 vessels enrolled on the 1996-97 assessment roll. Similarly, the 2001-02 total assessed value exceeds the 1996-97 assessed value of \$85,892,029 by more than \$50 million. These increases reflect the fact that the current assessor resumed the annual assessment of vessels, which had been suspended by her predecessor in response to severe budget cuts imposed on his office.

Our previous survey report contains a recommendation regarding the assessment of boats and vessels within Marin County. The recommendation contained four separate issues that the assessor needed to address in order to upgrade her vessel assessment program:

- Assess all boats;
- Appraise boats at market value;
- Apply the section 463 penalty correctly; and
- Require certain vessel owners to file annual vessel property statements.

Assess All Boats

At the time of our last survey, the assessor had a policy of assessing only those boats that had a value of \$10,000 or more. As of September 1998, the assessor began enrolling all boats, including those valued under \$10,000. The assessor's implementation of our recommendation played a major part in significantly increasing the county's vessel assessment roll. We commend the assessor for implementing this recommendation.

Appraise Boats at Market Value

This prior recommendation was based on the assessor's policy of using a fixed annual depreciation factor for all boats following the initial valuation. We found the assessor applied a fixed 5 percent annual depreciation factor. The assessor has modified this approach, but her current methodology still falls short of the approach recommended in Assessors' Handbook Section 576, *Assessment of Vessels*, which is to refer to published vessel valuation guides.

RECOMMENDATION 9: Appraise all vessels at market value.

The assessor assessed vessels for the 2001-02 assessment roll by applying a 5 percent depreciation factor to those vessels with a prior roll value of less than \$30,000. Those with a higher previously enrolled value were individually appraised using published value guides. In addition, vessels purchased new, resold, or newly moved into Marin County were individually appraised.

Although the assessor took action to improve the valuation of vessels within her county, those assessed at less than \$30,000 continue to be valued by use of an arbitrary fixed depreciation rate applied to the entire group of vessels (other than those purchased new, resold, or newly moved into the county) rather than to specific classes of vessels. The assessor should broaden her review parameters to include two groups (new and used), and six subgroups (cruiser/powerboat, sailboat, inboard, outboard, inboard/outboard, and jet ski). Trends in market values for these groups and classes could be determined by comparing published vessels values of the current and previous year. Adjustment factors could then be applied to all vessels within each group and class.

The effect of applying a fixed rate of depreciation to vessel assessments is that assessments are less likely to approximate the statutorily required standard of market value. We recommend that the assessor appraise all vessels at market value.

Vessel Property Statement

RECOMMENDATION 10: Apply the 10 percent penalty for late filing or failing to file a *Vessel Property Statement* as required by section 463.

During our last assessment practices survey we found that the assessor assessed a 10 percent penalty to vessel owners who filed the assessor's *Vessel Owner's Report* (VOR) form late or did not return the VOR. We recommended that the assessor discontinue this practice since section 463 provides that the assessor can only apply the 10 percent penalty for failure to file or to file timely the BOE-prescribed Form BOE-576-D, *Vessel Property Statement*. No penalty can be applied for failure to file the VOR or for filing it untimely.

Although the assessor now uses the Form BOE-576-D, she has failed to apply the 10 percent late filing or nonfiling penalty. Section 463 requires the assessor to add a 10 percent penalty for late filing or failing to file a BOE-prescribed property statement such as the BOE-576-D.

We recommend that the assessor apply the statutory penalty for not filing or untimely filing of the BOE-prescribed *Vessel Property Statement*.

RECOMMENDATION 11: Send *Vessel Property Statements* to owners of vessels costing \$100,000 or more as required by section 441.

In our prior survey, we recommended that the assessor send an annual Form BOE-576-D, *Vessel Property Statement*, to all vessel owners whose vessels cost \$100,000 or more.

We found that the assessor does not send annual *Vessel Property Statements* to the owners of those vessels costing more than \$100,000 and classified as non-commercial vessels.

Section 441 requires each person owning taxable personal property, other than a manufactured home, having an aggregate cost of \$100,000 or more for any assessment year, to file a signed property statement with the assessor. This provision also applies to all vessels, including both commercial and non-commercial vessels.

We repeat our prior recommendation that the assessor mail *Vessel Property Statements* (Form BOE-576-D) annually to all owners of vessels costing \$100,000 or more.

Documented Vessel Exemption

Section 227 provides that vessels used in ocean fishing, research, and sport fishing may qualify for a 96 percent exemption, if an affidavit is filed by February 15. Section 275.5 provides that if the affidavit is filed between February 16 and August 1, the exemption is reduced to an amount equal to 80 percent of the reduction that would have been allowed had the affidavit been filed timely.

RECOMMENDATION 12: Implement the section 275.5 reduced documented vessel exemption for late-filed exemption affidavits.

We found that the assessor still grants the full exemption when vessel owners file the affidavit after the February 15 deadline. Assessments of documented vessels may receive only 80 percent of the 96 percent exemption, or a 76.8 percent exemption, when the vessels' owners fail to timely file affidavits.

We recommend the assessor reduce the documented vessel exemption to 80 percent of the 96 percent exemption when a vessel owner fails to file a timely vessel exemption affidavit.

APPENDICES

A: County Property Tax Division Survey Group

Marin County Assessment Practices Survey

Chief, County Property Tax Division

Charles Knudsen

Assessment Practices Survey Section Manager

Michael Lebeau

Principal Property Appraiser

Survey Team Supervisor

Peter Gaffney

Supervising Property Appraiser

Office Survey Team Leader

James Lovett

Senior Specialist Property Appraiser

Survey Team

Jody Henning

Associate Property Appraiser

Bob Marr

Associate Property Appraiser

Nick Winters

Associate Property Appraiser

David Barbeiro

Associate Property Auditor Appraiser

Manuel Garcia

Associate Property Auditor Appraiser

Mike Shannon

Associate Property Auditor Appraiser

Kim Trotto

Assistant Property Appraiser

Debbie Cooke

Tax Technician I

Marilyn Jones

Tax Technician II

B. Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The BOE, in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property and eventually its assessment level. The purpose of the BOE's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he/she is performing the valuation function.

The BOE's County Property Tax Division (CPTD) conducts the assessment sampling program on a five-year cycle for the 11 largest counties and cities and counties and on either a random or as needed basis for the other 47 counties. This sampling program is described as follows:

1. A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.
2. These assessments are stratified into 18 value strata (nine secured and nine unsecured.)
3. From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.
4. For purposes of analysis, the items will be identified and placed into one of five categories after the sample is drawn:
 - a) **Base year properties.** Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
 - b) **Transferred properties.** Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
 - c) **New construction.** Those properties last reappraised to reflect new construction that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

- d) **Non-Proposition 13 properties.** Those properties not subject to the value restrictions of article XIII A, or those properties that have a unique treatment. Such properties include mineral-producing property, open-space property, timber preserve property, and taxable government-owned property.
 - e) **Unsecured properties.** Those properties on the unsecured roll.
5. From the assessment universe in each of these 18 value strata (nine strata on both secured and unsecured local rolls), a simple random sampling is drawn for field investigation that is sufficient in size to reflect the assessment practices within the county. A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values. Because a separate sample is drawn from each stratum, the number of sample items from each category is not in the same proportion to the number of assessments in each category. This method of sample selection causes the raw sample, i.e., the "unexpanded" sample, to overrepresent some assessment types and underrepresent others. "Expanding" the sample data eliminates this apparent distortion in the raw sampling; that is, the sample data in each stratum are multiplied by the ratio of the number of assessments in the particular stratum to the number of sample items selected from the stratum. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.
6. The field investigation objectives are somewhat different in each category, for example:
- a) **Base year properties** -- for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? was there a change in ownership? was there new construction? or was there a decline in value?
 - b) **Transferred properties** -- for those properties where a change in ownership was the most recent assessment activity during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that a reappraisal was needed? do we concur with the county assessor's new value? was the base year value trended forward (for the allowed inflation adjustment)? was there a subsequent ownership change? was there subsequent new construction? was there a decline in value?

- c) **New construction** -- for those properties where the most recent assessment activity was new construction added during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that the construction caused a reappraisal? do we concur with the value enrolled? was the base year amount trended forward properly (for the allowed inflation adjustment)? was there subsequent new construction? or was there a decline in value?
 - d) **Non-Prop 13 properties** -- for properties not covered by the value restrictions of article XIII A, or those properties that have a unique treatment do we concur with the amount enrolled?
 - e) **Unsecured properties** -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?
- 7. The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.
 - 8. The results of the sample are then expanded as described in (5) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

The primary use of the assessment sampling is to determine an assessor's eligibility for the cost reimbursement authorized by section 75.60. During the course of the sampling activity, the assessment practices survey team may also discover recurring causes for the differences in the opinion of taxable value that arise between the assessor and the County Property Tax Division. These discoveries may lead to recommendations in the survey report that would not have otherwise been made.

C. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. Audit of Records; Appraisal Data Not Public.

In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located; of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

15642. Research by board employees.

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may also show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

15643. When surveys to be made.

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
- (d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

15645. Survey report; final survey report; assessor's report.

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.
- (b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.
- (c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

15646. Copies of final survey reports to be filed with local officials.

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

Revenue and Taxation Code**75.60. Allocation for administration.**

- (a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6(commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.
- (b) For purposes of this section:
- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
 - (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll the the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
 - (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

- (a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
 - (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
 - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
 - (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.
- (c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.
- (d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

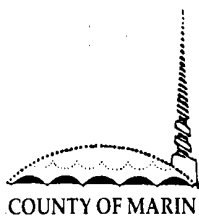
Rule 371. Significant assessment problems.

- (a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:

- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
 - (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.
- (b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:
- (1) Uniformity of treatment for all classes of property.
 - (2) Discovering and assessing newly constructed property.
 - (3) Discovering and assessing real property that has undergone a change in ownership.
 - (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
 - (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
 - (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
 - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the BOE a response to the findings and recommendation in the survey report. The Marin County Assessor's response begins on the next page. The BOE has no comments on the response.



OFFICE OF THE ASSESSOR-RECORDER

September 27, 2002

Joan C. Thayer
Assessor-Recorder

Mr. Charles, Knudsen, Chief
County Property Division
State Board of Equalization
Post Office Box 942879
Sacramento, California 94279-0062

RECEIVED

SEP 30 2002

County Property Tax Division
State Board of Equalization

Re: Assessor's Response – Assessment Practices Survey

Dear Mr. Knudsen:

Enclosed is the County Assessor-Recorder's response to the State Board of Equalization's Assessment Practices Survey and sample of the 2001-2002 assessment roll. This response is submitted pursuant to Section 15645 of the California Government Code.

I wish to thank the State Board of Equalization for its efforts, through the survey and sampling process, to ensure that assessments are correct and in conformance with sound appraisal and assessment practices. Your fine staff is to be commended for their professionalism and courtesy while in the field.

We are in agreement with your recommendations and are in the process of implementing as many as possible given our resources. Unlike other assessors' offices, my office has not received any funding through the State Property Tax Administration Loan and Grant Programs. Moreover, we are still short one auditor-appraiser position in our Business Personal Property division due to budget cuts several years ago. Therefore, there may be some recommendations that are beyond our current capabilities

I also would like to congratulate my excellent staff whose hard work and great expertise enabled my office to attain an average assessment ratio of 100%.

Sincerely yours,

Joan C. Thayer
Joan C. Thayer

MARIN COUNTY RESPONSE
Assessment Practices Survey
September 2002

RECOMMENDATION 1: Review church property for non-qualifying uses and disallow the exemption to that extent.

RESPONSE: It is the assessor-recorder's policy, upon discovery of non-qualifying uses, to not grant a church exemption on those portions of the property not used for religious worship. We concur with your recommendation concerning periodic field reviews on church property.

RECOMMENDATION 2: Review all private uses of the county fairgrounds for possible assessment as taxable possessory interests.

RESPONSE: The assessor-recorder concurs.

RECOMMENDATION 3: Bring the mandatory audit program into compliance with section 469.

RESPONSE: The assessor-recorder concurs. Severe budget cuts in the early and mid 90's resulted in the loss of 3 of the 7 auditor-appraiser positions. This made it impossible to complete more than a few audits per year. Since then, 2 of the 3 previously lost positions have been restored and audits are again being completed. Despite repeated attempts, the assessor-recorder was not allowed to participate in the state-county property tax administration program (AB 818 and AB 719). The resources provided by this program would have allowed the assessor-recorder to complete all audits mandated by section 469.

RECOMMENDATION 4: Discontinue the use of minimum valuation factors.

RESPONSE: The assessor-recorder concurs and will implement this recommendation as soon as resources are available to make the necessary system changes.

RECOMMENDATION 5: Require all apartment owners to file the *Apartment House Property Statement*.

RESPONSE: The assessor-recorder concurs and will implement this recommendation as soon as resources are available. Despite repeated attempts, the assessor-recorder was not allowed to participate in the state-county property tax administration program (AB 818 and AB 719). The resources provided by this program would have allowed the

assessor-recorder to require all apartment owners to file the *Apartment House Property Statement*.

For the 2002 assessment roll, the assessor-recorder did require owners of apartments with 50 or more units to file the *Apartment House Property Statement*.

RECOMMENDATION 6: Review lessors' current business property statements more carefully to ensure compliance with reporting requirements and to discover whether valuation issues may exist.

RESPONSE: The assessor-recorder concurs and will implement this recommendation as soon as resources are available. Despite repeated attempts, the assessor-recorder was not allowed to participate in the state-county property tax administration program (AB 818 and AB 719). The resources provided by this program would have allowed the assessor-recorder to review lessors' current business property statements more carefully.

RECOMMENDATION 7: Document manufactured home appraisals, including adjustments for in-park locations.

RESPONSE: This recommendation has been implemented.

RECOMMENDATION 8: Document condition adjustments to aircraft valuations.

RESPONSE: The assessor-recorder concurs. Although certain files may not contain full current documentation, it is our policy to adequately document any atypical variations from the recommended value guide.

RECOMMENDATION 9: Appraise all vessels at market value.

RESPONSE: The assessor-recorder concurs. As staff and system resources allow we will refine our vessel valuation methods to include market study subgroups.

RECOMMENDATION 10: Apply the 10 percent penalty for late filing or failing to file a *Vessel Property Statement* as required by section 463.

RESPONSE: This recommendation has been implemented.

RECOMMENDATION 11: Send *Vessel Property Statements* to owners of vessels costing \$100,000 or more as required by section 441.

RESPONSE: This recommendation has been implemented.

RECOMMENDATION 12: Implement the section 275.5 reduced documented vessel exemption for late-filed exemption affidavits.

RESPONSE: This recommendation has been implemented.